

## Message Text

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FM AMEMBASSY ISLAMABAD

TO SECSTATE WASHDC 8404

INFO AMEMBASSY DACCA

USMISSION OECD PARIS

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DACCA FOR AID ADMINISTRATOR PARKER

E.O. 11652: GDS

TAGS: OVIP - BHUTTO, ZULFIKAR AKI.

SUBJECT: BHUTTO VISIT TO THE UNITED STATES

BEGIN SUMMARY. MISSION REVIEWS CURRENT PAKISTAN THINKING  
ON BROADER ECONOMIC QUESTIONS AND SUGGESTS LINES WHICH MAY  
BE TAKEN BY PRIME MINISTER IN DISCUSSIONS DURING WASHINGTON  
VISIT. END SUMMARY.

1. WE HAVE THE IMPRESSION THAT PRIME MINISTER BHUTTO IS  
GIVING INCREASING ATTENTION TO ECONOMIC MATTERS BOTH DOMESTIC  
AND INTERNATIONAL. THIS HAS RESULTED IN AT LEAST A SMALL SHIFT IN  
ATTITUDE TOWARD THE PRIVATE SECTOR, BETTER DECISIONS ON AGRICULT-  
URAL PRICE RELATIONSHIP QUESTIONS, AND SPECIAL ATTENTION TO  
ARAB FUNDING OF DEVELOPMENT EFFORTS.

2. THE PRIME MINISTER SUFFERS FROM A PAUCITY OF ABLE  
ECONOMIC ADVISORS IN PAKISTAN. IN ADDITION TO CURRENT  
MEMBERS CIVIL SERVICE SUCH AS KAZI AND AFTAB AHMED KHAN,  
HE CONSULTS FREQUENTLY WITH AGRICULTURE ADVISOR BUCHA AND  
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OCCASIONALLY WITH MAHBUB UL HAQ OF IBRD. WE ALSO KNOW HE

IS USING FORMER DEPUTY CHAIRMAN OF PLANNING COMMISSION QAMARUL ISLAM WHO RETURNS TO PAKISTAN FROM HIS POST AS AMBASSADOR IN BRUSSELS SEVERAL TIMES A YEAR. AT THE TIME OF HIS LAST VISIT IN DECEMBER, ISLAM REMINDED THE PRIME MINISTER OF PAKISTAN'S SPECIAL OPPORTUNITY TO COMMUNICATE WITH THE NEWLY RICH ARABS. ISLAM SUGGESTED TO THE PRIME MINISTER THAT HE USE HIS UNIQUE INFLUENCE WITH THE ARABS TO URGE THEM ON A MODERATE COURSE IN THEIR DEALINGS WITH THE WEST. THE ARABS SHOULD AVOID STEPS TO CAUSE CATASTROPHIC ECONOMIC DISLOCATION IN THE WEST WHILE AT THE SAME TIME THEY SHOULD USE A PORTION OF THEIR NEW WEALTH IN SUPPORT OF THE LESS DEVELOPED WORLD.

3. SINCE THAT TIME WE UNDERSTAND ISLAM HAS ARTICULATED A SYSTEM OF RECYCLING THROUGH THE LDC'S IN WHICH THE POOR, THE LDC'S AND THE WEST WOULD BENEFIT. TO SOME EXTENT THIS IS MAKING A THEORY OUT OF THE OBVIOUS. IN ANY CASE, ISLAM IS APPARENTLY ADVOCATING THAT THE ARABS ALLOCATE A SIGNIFICANT PORTION OF THEIR NEW INCOME FOR SUPPORTING DEVELOPMENT INVESTMENT IN SUCH COUNTRIES AS PAKISTAN. INEVITABLY THESE EXPENDITURES WOULD RESULT IN ORDERS FROM THE WEST THEREBY CONSTITUTING A TWO-STEP RECYCLE. EVIDENCE THAT THE PRIME MINISTER IS ACTING ON THIS ADVICE CAME DURING THE RECENT THIRD WORLD ECONOMIC FORUM WHEN THE PRIME MINISTER PUBLICLY URGED THE OIL RICH COUNTRIES TO DEVOTE SUBSTANTIALLY LARGER SUMS TO LDC DEVELOPMENT PROGRAMS.

4. AS THE PRIME MINISTER PREPARES TO GO TO WASHINGTON, THERE IS INCREASING EVIDENCE THAT PAKISTAN HAS BEEN REASONABLY SUCCESSFUL IN ITS FIRST ROUND OF NEGOTIATIONS WITH THE OPEC NATIONS. THIS HAS BEEN DRAMATIZED IN THE PAST TWO WEEKS BY THE FOUR LARGER DONATIONS IN CONNECTION WITH EARTHQUAKE RELIEF AND REHABILITATION TOTALLING SOME \$40 MILLION. BUT OF COURSE THESE SUMS ARE ONLY A FRACTION OF WHAT PAKISTAN HAS LINED UP FROM IRAN AND THE ARAB COUNTRIES FOR GENERAL DEVELOPMENT PURPOSES AND MORE IS LIKELY TO BE UNDER DISCUSSION BUT NOT YET PUBLICLY KNOWN. THIS INITIAL SUCCESS IS PARTLY THE RESULT OF FACT THAT PAKISTAN PRESENTS A UNIQUE COMBINATION OF BEING BOTH A MUSLIM STATE AND HAVING HIGH AID ABSORPTION CAPACITY.

5. WE EXPECT THE PRIME MINISTER DURING HIS VISIT TO THE  
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UNITED STATES WILL WANT TO HEAR THAT WASHINGTON APPROVES AND ENCOURAGES THE TWO-STEP RECYCLING APPROACH AS ONE CONSTRUCTIVE WAY THE OIL COUNTRIES CAN UTILIZE THEIR FUNDS BOTH TO THE BENEFIT OF THE MOST SERIOUSLY AFFECTION LDC'S AND TO THE WEST WHICH WOULD BE THE RECIPIENT OF ORDERS GROWING OUT OF THE HIGHER LEVEL OF DEVELOPMENT EXPENDITURES. WHILE WE THINK THAT IN FACT PAKISTANI INFLUENCE IN OIL COUNTRY CAPITALS IS PROBABLY MARGINAL, WE SUSPECT THE PRIME MINISTER

WILL WISH TO TAKE CREDIT FOR HIS ROLE AS A COUNSELOR OF MODERATION.

6. WITHIN THIS FRAMEWORK OF COURSE THERE REMAINS THE QUESTION OF THE APPROPRIATE ROLE OF THE UNITED STATES AS A CONTINUING PROVIDER OF SIGNIFICANT AID. WE MIGHT ALSO CONSIDER HOW WE CAN ENCOURAGE THE FLOW OF ASSISTANCE FROM THE OIL RICH COUNTRIES TO THE LDC'S AND ENCOURAGE THE FLOW OF THESE EXPENDITURES BACK TO THE WEST AND MORE PARTICULARLY TO THE UNITED STATES. IN THIS CONNECTION WE FIND OURSELVES INCREASINGLY IMPRESSED WITH THE POSSIBILITIES OF UTILIZING A PORTION OF UNITED STATES AID FOR HELPING COUNTEIS SUCH AS PAKISTAN DEVELOP PROJECTS WORTH OF OIL COUNTRY SUPPORT. THIS INVOLVES BOTH FEASIBILITY AND ENGINEERING DESIGN. IF WE CAN CHANNEL A PORTION OF OUR AID AVAILABILITIES TOWARD THIS FUNCTION, IT MAY BE POSSIBLE TO ACCELERATE THE FLOW OF FUNDS FROM THE OIL RICH TO PAKISTAN AND SIMILAR COUNTEIS AS WELL AS TO INCREASE THE POSTION OF THESE EXPENDITURES WHICH RESULT IN ORDERS TO THE UNITED STATES. WE PLAN TO DISCUSS THESE QUESTIONS WITH ADMINISTRATOR PARKER AND ASSISTANT ADMINISTRATOR NOOTER DURING THEIR VISIT NEXT WEEK.

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7. WE BELIEVE THAT WITH THE INCREASING COMMITMENT RATE

FROM THE OIL COUNTRIES TO PAKISTAN, PAKISTAN WILL BECOME CONCERNED THAT THE UNITED STATES WILL REDUCE IT AID FLOW. PAKISTAN'S QUOTE MULTILATERAL BILATERALISM UNQUOTE TRIES TO MAINTAIN REASONABLY GOOD RELATIONSHIPS WITH EACH OF THE MAJOR POWERS. WITHIN THIS FRAMEWORK PAKISTAN HAS MADE IT A POINT TO DEVELOP A SUBSTANTIAL AID FLOW FROM VERY DIVERSE SOURCES. THUS IT IS RECEIVING SUBSTANTIAL HELP FROM THE CHINESE, NOT ONLY FOR HEAVY EQUIPMENT MANUFACTURING CAPACITY AND THE BUILDING OF THE LONG KARAKORAM HIGHWAY, BUT ALSO FOR THE RECENTLY ANNOUNCED ISLAMABAD SPORTS COMPLEX. FROM THE USSR PAKISTAN HAS OBTAINED A MAJOR COMMITMENT FOR THE KARACHI STEEL MILL. FROM THE CONSORTIUM COUNTRIES OTHER THAN THE U.Y

., COMMITMENTS

HAVE BEEN MAINTAINED AT EARLIER LEVELS AND IN FACT GENERALLY INCREASED. FLOWS FROM THE WORLD BANK GROUP AND ADB ARE GOING UP. WITHIN THIS FRAMEWORK PAKISTAN WILL ARGUE THAT THE UNITED STATES MUST AT LEAST MAINTAIN ITS AID FLOW AND HOPEFULLY INCREASE IT IN LIGHT OF THE FACT THAT THE AID DOLLAR DELIVERS ONLY A THIRD AS MANY GOODS AS IT DID ONLY 2 TO 3 YEARS AGO AND IN LIGHT OF PAKISTAN'S NEED FOR FOOD IMPORTS AT LEAST FOR THE COMING TWO YEAR PERIOD.

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8. WE BELIEVE THE PRIME MINISTER WILL COME TO WASHINGTON WITH A DUALITY OF MOODS ON THE ECONOMIC SIDE. ON THE ONE HAND THE PRIME MINISTER FREQUENTLY RECITES THE BAD LUCH OF THE PAST 18 MONTHS INCLUDING THE FLOOD, THE OIL PRICE INCREASE, THE TARBELA ACCIDENT, THE CURRENT SEVERE DROUGHT AND FINALLY THE EARTHQUAKE. ON THE OTHER HAND THE PRIME MINISTER CAN SEE HIS WAY CLEAR TO FINANCING IMPORTS MADE NECESSARY BY THESE CALAMITIES THROUGH THIS FISCAL YEAR AND IS BEGINNING TO SEE THE RESOURCES FALL IN LINE TO COVER THE GAP NEXT YEAR. IN THIS SITUATION THE PRIME MINISTER WILL BE SEEKING STRONG ASSURANCES THAT THE UNITED STATES WILL STAY THE COURSE IN PAKISTAN. HE WILL ARGUE THAT ALTHOUGH PAKISTAN HAS SHORT-RUN PROBLEMS, ITS LONGER RUN PROSPECTS, PARTICULARLY BASED ON PAKISTAN'S POTENTIAL FOR AGRICULTURAL DEVELOPMENT, ARE EXCELLENT. HE IS IN CONTINUAL DIALOGUE WITH HIS SPECIAL ASSISTANT FOR AGRICULTURE M. K. BUCHA. TOGETHER THEY ARE EVOLVING A BROAD STRATEGY TO CAPITALIZE ON THIS POTENTIAL. IN SEEKING OUR CONTINUING SUPPORT, WE EXPECT THE PRIME MINISTER, BASED ON THIS STRATEGY, TO EXPOUND ON HIS DESIRE TO MOVE AHEAD QUICKLY WITH SALINITY CONTROL AND RECLAMATION PROGRAMS AND TO COMPLETE HIS FERTILIZER STRATEGY WHICH INVOLVES BOTH MAJOR FERTILIZER PRODUCTION INVESTMENTS AND FINANCING OF INTERIM FERTILIZER IMPORTS. ON OURSIDE, WE ARE STRESSING THAT PAKISTAN SHOULD NOT ONLY CONTINUE SALINITY CONTROL INVESTMENTS BUT SHOULD ALSO TURN TO WHAT MAY TURN OUT TO BE AN EVEN MORE PRODUCTIVE SET OF INVESTMENTS IN THE BETTER UTILIZATION OF WATER DELIVERED TO THE CANAL OUTLET. WE ARE WORKING WITH THE GOVERNMENT ON SUCH

PROGRAMS AS WATERCOURSE LINING AND PRECISION LANDLEVELING WHERE INVESTMENTS ARE NEEDED AT THE FARMER LEVEL IN ORDER TO AVOID HUGE WATER LOSSES NOW TAKING PLACE.

9. IF WASHINGTON INTEREST IS DISPLAYED IN PAKISTAN'S POPULATION EFFORTS, THE PRIME MINISTER CAN BOAST THAT PAKISTAN HAS NOW LAUNCHED ONE OF THE BOLDER POPULATION EFFORTS IN WHPHH CONVENTIONAL CONTRACEPTIVES ARE BEING MJE AVAILABLE AT MORE THAN 25,000 OUTLETS AT 2.5 CENTS A MONTHLY CYCLE. THESE INUNDATION LEVELS OF PILLS AND CONDOMS ARE JUST NOW BEING ACHIEVED.

10. IN TERMS OF IMMEDIATE CONCERNS, THE PRIME MINISTER IS VITALLY INTERESTED IN MAINTAINING ADEQUATE SUPPLIES OF FLOUR AND VEGETABLE OIL TO FIXED PRICE SHOPS FOR THE URBAN

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CONSUMERS. HE CONSIDERS THIS AN ABSOLUTE POLITICAL REQUIREMENT. THEREFORE, EVEN IF PL-480 ALLOCATIONS HAVE BEEN MADE BY THE TIME OF HIS VISIT, HE WILL CERTAINLY STRESS THE IMPORTANCE OF THESE TO PAKISTAN. WE BELIEVE HE WILL LIKEWISE STRESS THE ALMOST CERTAINTY THAT PAKISTAN WILL NEED TO IMPORT AT LEAST 2 MILLION TONS OF WHEAT IN FY 1976 AS A RESULT OF THE IMPACT OF THE CURRENT DROUGHT ON THE CROPS NOW GROWING.

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